

CHAPTER VI

THE COSTS AND SAVINGS OF

CLOSING AND REALIGNING BASES

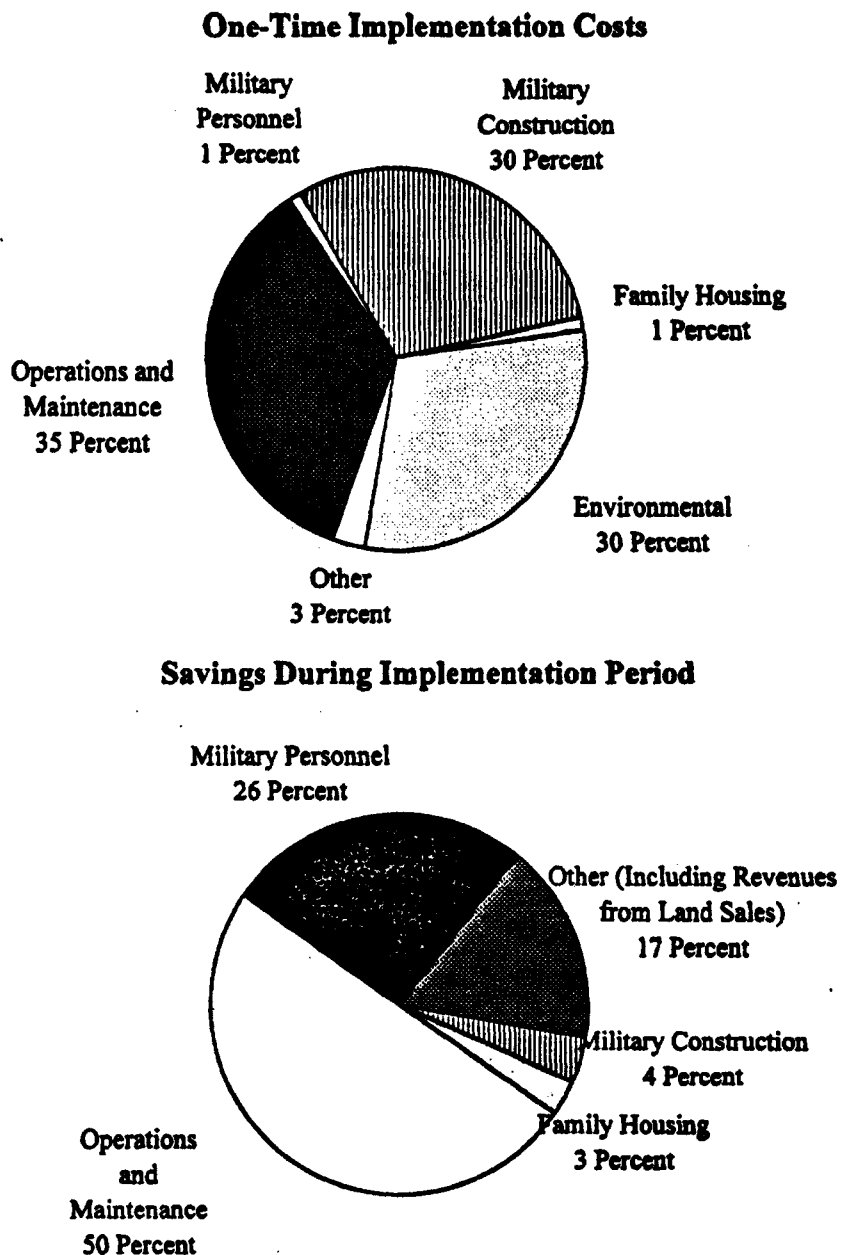
In 1988, the Secretary of Defense directed the services to consider potential costs and savings in determining which bases to close or realign. Potential savings, while not the determining factor for base realignment and closure decisions, nonetheless has been basic in the decisionmaking process. Departmental guidance for the first three rounds of BRAC, for example, required each BRAC action to achieve net savings within six years. Guidance governing BRAC IV actions also required the services to demonstrate potential net savings, although the time frame was left unspecified. In short, BRAC cutbacks in the defense base support structure must not only meet the Department of Defense's primary criterion—military value—but must achieve real savings in doing so.

The analysis contained in this chapter is based on Department of Defense projections of costs and savings for the four rounds of BRAC. Although DoD has begun to collect information on actual cost and savings, it is not currently able to provide enough data on which to base analysis. Nevertheless, it is useful to compare initial with current projections to assess the general reliability of DoD's estimates, especially when considering whether to proceed with an additional round of base closures. The analysis contained in this chapter could serve as a benchmark for evaluating DoD's performance with respect to costs and savings as actual figures become available.

According to DoD estimates, BRAC actions will yield about \$56.7 billion in net savings over a 20-year period discounted to present value. (DoD's estimate applied a discount rate of 4.2 percent.) Most of those savings will accrue after the implementation period, however, during which most of the expenses of closing and realigning occur. According to DoD estimates for all rounds of BRAC, the Department of Defense will spend a total of about \$23.4 billion during the period during which the program is put into effect. Total projected savings for the same period could approach \$28.7 billion, providing net savings of about \$5.3 billion.

According to DoD, most of the costs of carrying out BRAC decisions are divided among operations and maintenance, military construction, and environmental cleanup (see Figure 11). Operations and maintenance costs include spending for increased overhead at receiving bases covering expanded base operations and support, maintenance of property, administrative support, and allowances for housing. Military construction costs cover the expenses of rehabilitating, expanding,

FIGURE 11. PROFILE OF TOTAL BRAC COSTS AND SAVINGS BY ACCOUNT



SOURCE: Data from the Department of Defense.

and constructing new facilities to receive personnel and equipment transferred to a base. Spending for environmental cleanup covers initial assessment, evaluation and testing of contamination, and rehabilitation.

The Department of Defense could increase net savings for BRAC by taking action in the following major categories:

- o Reducing costs of military construction by finding alternative ways to accommodate living and working requirements for transferred personnel could yield significant savings.
- o Delaying certain construction projects could result in temporary cost reductions while the services determined whether projected requirements were valid.
- o Delaying environmental cleanup projects could reduce near-term costs temporarily, but could also require renegotiating cleanup agreements with the Environmental Protection Agency and local regulators. Such delays could also affect the timeliness of reusing base property and local economic recovery.

By closing and realigning bases, DoD estimates it will save about \$14.3 billion in operating and maintenance costs during periods when BRAC is being carried out—about half of the projected savings from BRAC (see Figure 11). Those savings include spending that is no longer required for operating and maintaining bases as well as for civilian personnel whose jobs are eliminated. Cutbacks in military personnel will save about \$7.5 billion—about a quarter of the total projected savings—during the period in which base closings are being carried out.

Officials of the Department of Defense believe that DoD has realized its projected savings and will continue to do so because the Department has incorporated them into future budget plans and projections. DoD has not, however, audited the results of BRAC decisions to determine whether their projections for costs and savings are being achieved. If actual costs prove to be higher (or net savings are lower) than DoD's projections, the Department of Defense must seek additional funding to carry out the BRAC schedule.

CBO cannot evaluate the accuracy of DoD's estimates without empirical data. Comparing DoD's initial and current estimates for BRAC costs and savings, however, indicates that its projections vary significantly. According to the Department of Defense's most recent estimates, it does not expect to achieve the level of net savings that it had initially anticipated for BRAC I.

Indeed, DoD's initial projections for total net savings during the period for carrying out BRAC I were too optimistic (see Figure 12). In January 1990, DoD estimated that the first round of base closures and realignments could achieve about \$850 million in net savings during the period from 1990 through 1995. (The estimate includes the cost of environmental cleanup.) The Department of Defense now estimates that BRAC I actions will not produce net savings during the time they are put into practice, but will result in net costs of about \$500 million. DoD's current estimate represents about \$1.3 billion less in savings than the Department originally estimated for BRAC I actions. DoD believes, however, that total savings will begin to exceed the total costs of carrying out BRAC I during 1997.

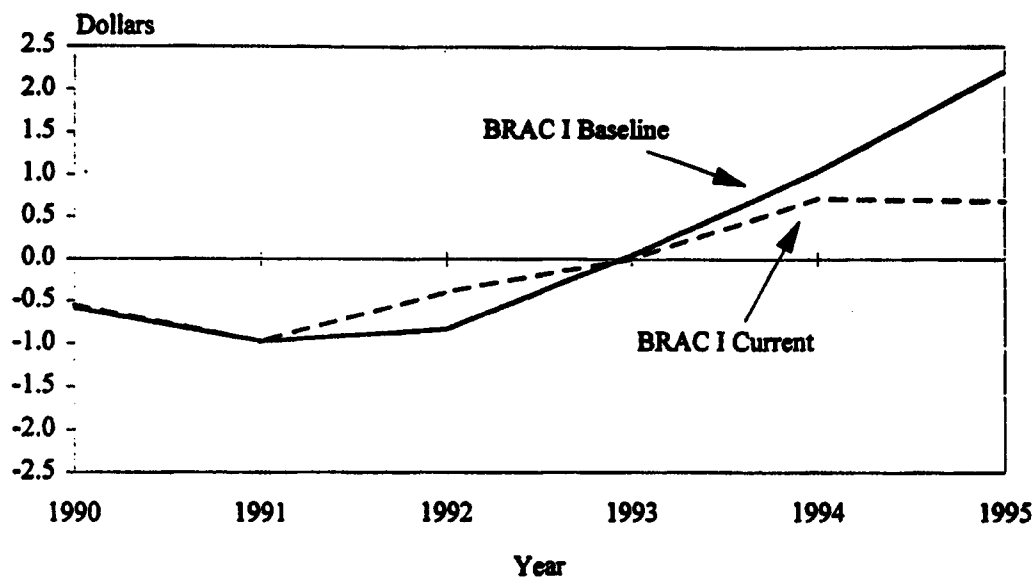
Why has DoD been unable to achieve the savings it expected? First, the Department of Defense overestimated the potential revenues it could generate through the sale of surplus property (see Figure 13). In 1990, DoD estimated that the sale of property on former military bases could raise about \$2.4 billion in revenues. In fact, however, the Department of Defense has received only about \$74 million in revenues during the past five years. The shortfall explains many of the inaccuracies contained in DoD's early estimates for BRAC I.

Second, DoD underestimated the cost of cleaning up closing bases (see Figure 14). The Department of Defense initially estimated that it would cost about \$570 million to rehabilitate BRAC I bases during the period in which the program was carried out. Currently, DoD estimates that it will cost about \$1.1 billion. Environmental assessments of BRAC I bases have identified a number of environmental problems not known at the time of DoD's initial estimates. Investigators have identified additional contaminated sites and more varied and extensive contamination than originally believed. In addition, higher cleanup standards than anticipated have required more expensive rehabilitation techniques.

DoD's optimistic estimates for revenues from land sales and the cost of environmental cleanup for BRAC I bases, however, have been partially offset by lower net costs of military construction and operations and maintenance. The Department of Defense initially estimated that the net costs of military construction for those bases could total about \$1.9 billion. DoD's current estimate is only slightly more than half that, about \$1 billion. Estimates for the costs of operations and maintenance have decreased from about \$870 million to about \$490 million.

The Department of Defense's estimates for savings in other major categories have remained constant during the 1990-1995 period. DoD's initial and current estimates still project that it will save about \$900 million in spending for operations and maintenance and about \$1 million in expenditures for military personnel.

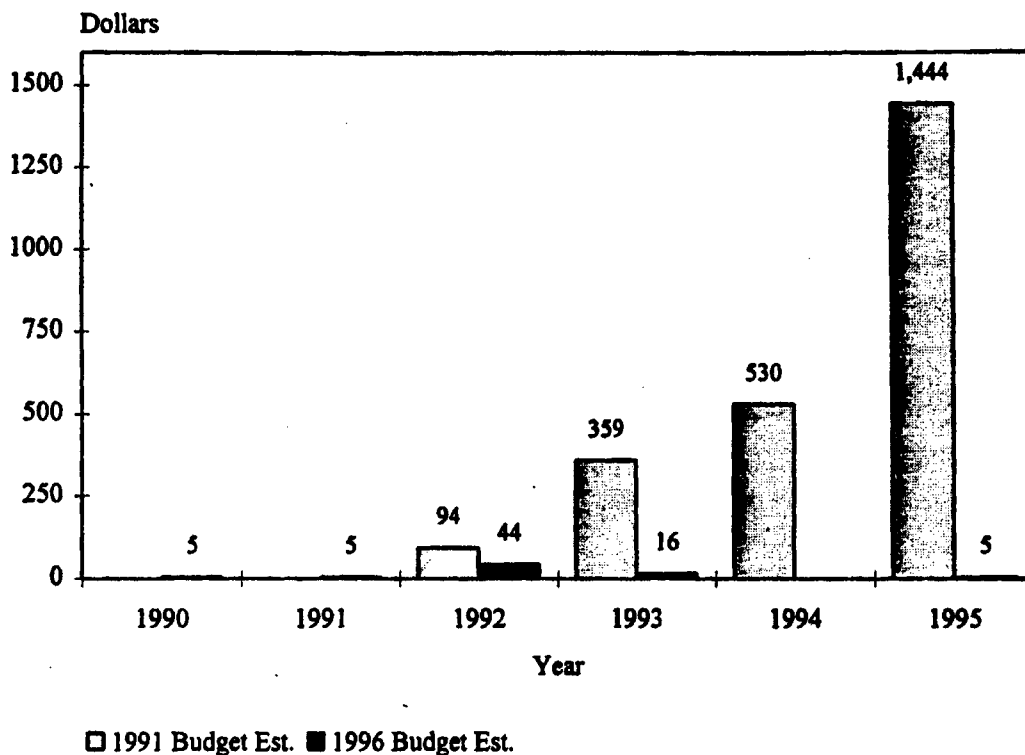
FIGURE 12. BASELINE AND CURRENT ESTIMATES OF ANNUAL NET SAVINGS FROM CARRYING OUT BRAC I (In billions of 1997 dollars)



SOURCE: Data from the Department of Defense.

NOTE: BRAC = Base Realignment and Closure.

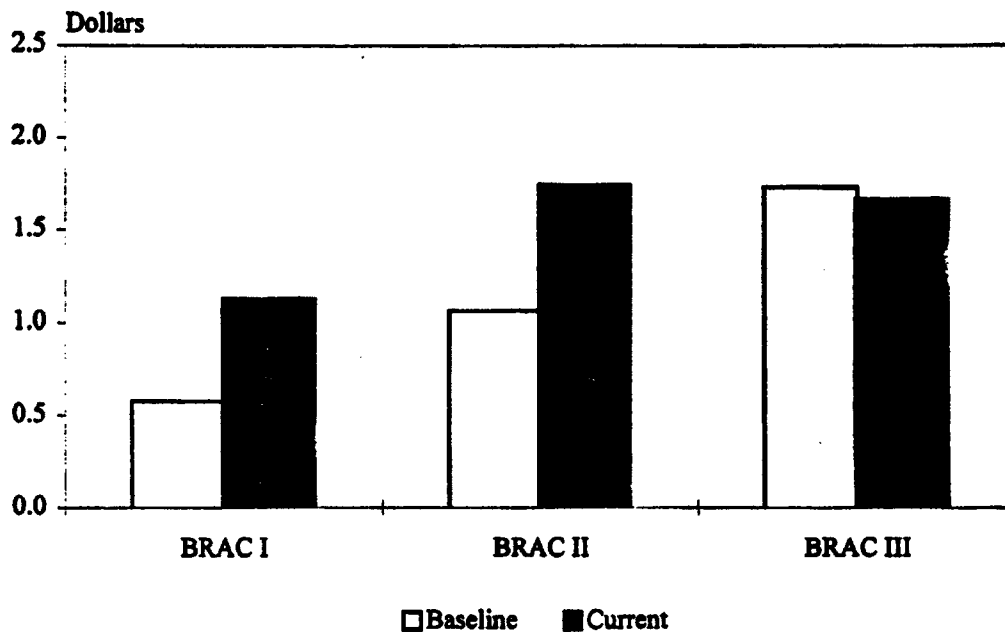
FIGURE 13. PROJECTED LAND REVENUES FOR BRAC I, FISCAL YEARS 1991 AND 1996 BUDGET ESTIMATES (In millions of 1997 dollars)



SOURCE: Congressional Budget Office, based on data from Department of Defense Base Realignment and Closure Budget estimates.

NOTE: BRAC = Base Realignment and Closure.

FIGURE 14. COMPARISON OF BASELINE AND CURRENT ENVIRONMENTAL COST ESTIMATES, BRAC I - III (In billions of 1997 dollars)



SOURCE: Data from the Department of Defense.

NOTE: BRAC = Base Realignment and Closure.

A comparison of DoD's initial and current estimates for BRAC II bases also suggests that early projections were too optimistic (see Figure 15). In 1992, DoD estimated that it could achieve about \$2.9 billion in net savings during the 1992-1997 period for the second round of closing and realigning bases. The Department of Defense currently estimates that it will save only about \$1 billion—approximately \$1.9 billion less than originally anticipated.

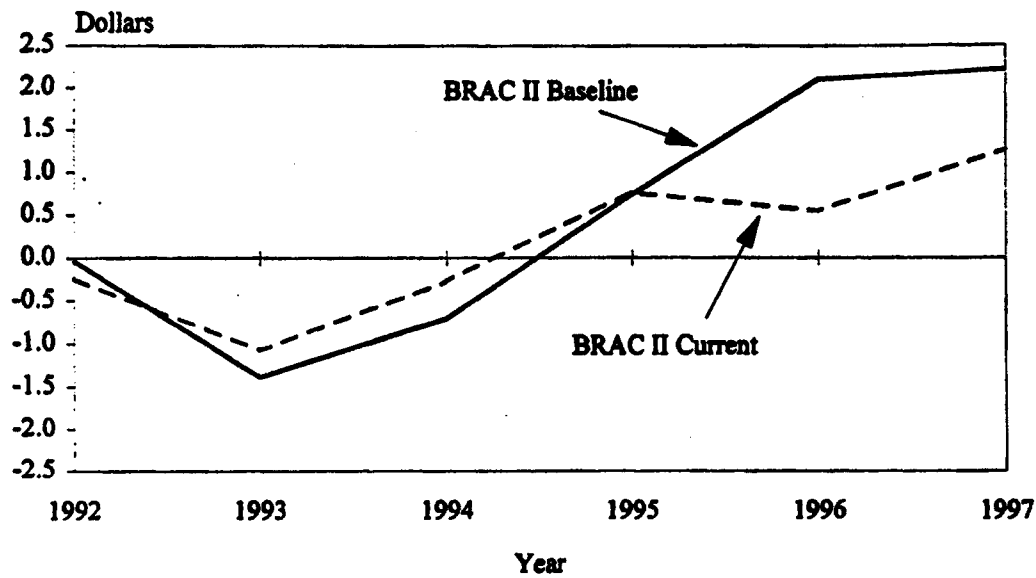
The same factors that explained the major sources of variance in DoD's estimates for BRAC I apply to its changing estimates for BRAC II. For example, the Department of Defense originally estimated that it would receive about \$1.8 billion through the sale of surplus military property on BRAC II bases. But those revenues will only amount to about \$38 million, according to current estimates. The estimated cost of environmental cleanup for BRAC II bases has increased at a rate approximating the changing estimates for the cost of rehabilitating BRAC I bases. DoD currently estimates that it will cost about \$1.7 billion to rehabilitate BRAC II bases between 1992 and 1997, compared with its initial estimate of about \$1.1 billion.

Current estimates for costs and savings for other BRAC II actions also reflect significant changes from initial projections. For example, although the estimated cost for putting operations and maintenance changes into effect has risen about \$300 million above initial estimates, the anticipated savings in operation and maintenance have decreased from \$3.2 billion to \$2.8 billion. Estimates for the cost of military construction have decreased from about \$2.4 billion initially to about \$1.8 billion as of March 1996. DoD's initial estimates of savings for military personnel have increased from about \$2 billion to \$2.5 billion.

Given the major adjustments that DoD has made in estimates of costs and savings for carrying out the first two rounds of BRAC, is it reasonable to assume that there will be similar variances in estimates of the final two rounds? Has DoD learned from its experiences during BRAC I and BRAC II? Certainly DoD's estimates for BRAC III are far less optimistic than for earlier rounds. For example, unlike estimates for earlier rounds, those for BRAC III do not anticipate that the Department of Defense will achieve any net savings during the period in which changes are carried out (see Figure 16). DoD initially projected that the net costs of carrying out BRAC III during 1994 to 1999 would be about \$715 million. This year, DoD estimates that those costs could be about \$553 million.

DoD's estimates for revenues from sales of surplus property under BRAC III appear to be far less optimistic than its estimates for earlier rounds. Property sales will generate only about \$244 million in revenue, according to current estimates—significantly less than the \$2.4 billion originally anticipated for

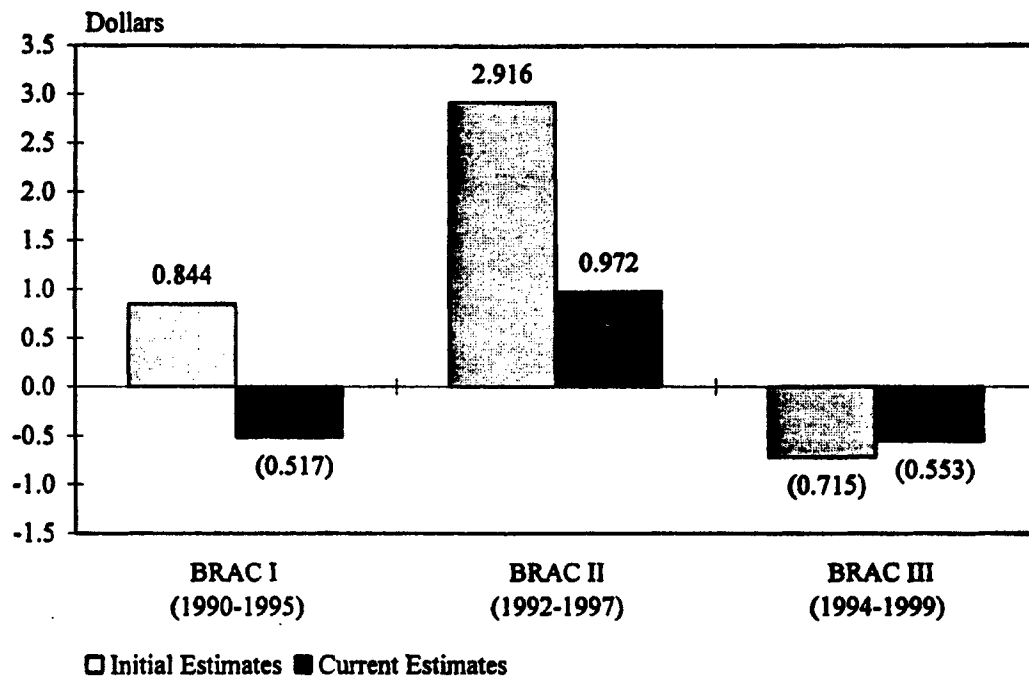
FIGURE 15. BASELINE AND CURRENT ESTIMATES OF ANNUAL NET SAVINGS FROM CARRYING OUT BRAC II (In billions of 1997 dollars)



SOURCE: Data from the Department of Defense.

NOTE: BRAC = Base Realignment and Closure.

FIGURE 16. INITIAL AND CURRENT DEPARTMENT OF DEFENSE ESTIMATES FOR NET SAVINGS DURING BASE REALIGNMENTS AND CLOSURES AS OF DECEMBER 7, 1995 (In billions of 1997 dollars)



SOURCE: Data from the Department of Defense.

BRAC I and the \$1.8 billion projected for BRAC II. Nevertheless, DoD's current estimate for revenues from land sales may still be optimistic because it is \$200 million higher than the current estimate for sales from BRAC II and has been reduced by about \$300 million from the Department of Defense's projections of a year ago.

The Department of Defense's cost estimate for cleaning up environmental contamination also appears to reflect the increasing costs in earlier rounds. Cleaning up BRAC III bases could cost about \$1.7 billion during the period when bases are being closed, according to DoD's initial estimate, which was considerably higher than initial estimates for BRAC I (\$570 million) and BRAC II (\$1.1 billion). DoD's current estimate for BRAC III cleanup—about \$1.7 billion—may still be optimistic, however, as work on cleaning contaminated sites shifts from studying the problems to actually decontaminating the sites.¹

Initial and current estimates for other major categories of costs and savings for BRAC III bases also vary, but do not significantly affect DoD's estimate for total net savings. The estimated costs of military construction, for example, have decreased from about \$3 billion to about \$2.6 billion. Costs of increased operations and maintenance have grown from about \$3.1 billion to about \$3.3 billion. The Department of Defense estimates that savings in operations and maintenance from closing bases has increased from an initial \$3.6 billion to about \$4.5 billion. Savings from reducing the number of military personnel and other expenditures, however, have decreased from about \$3.2 billion to about \$2.3 billion.

1. See Congressional Budget Office, *Cleaning Up Defense Installations: Issues and Options* (January 1995).

CHAPTER VII

CONCLUSION

During the past nine years, the Congress and the executive branch have worked together to establish and carry out a comprehensive system for closing military bases in the United States. Based on available information, the Congressional Budget Office believes that the Base Realignment and Closure process has evolved into an effective approach to closing military bases that will result in significant long-term savings. A final assessment, however, must await full execution of BRAC decisions. As of April 1996, the Department of Defense had closed only about half of the major bases called for by BRAC I through BRAC IV. Information about the actual impact of base closings on workers and communities, therefore, is limited. Many more years will be required before a comprehensive assessment of the BRAC process can be made on the basis of empirical data.

Until such information becomes available, evaluating the BRAC process must be limited to assessing the process itself, the achievement of planning milestones, and DoD's projections of the potential impacts of BRAC. This study, therefore, is intended as an interim assessment, defining the progress of BRAC to date and identifying and analyzing DoD's projections for subsequent analysis when the BRAC process and community response is complete.

Perhaps the most immediate measure of the success of the BRAC process is the fact that the Department of Defense is closing hundreds of surplus military installations. Before the enactment of BRAC legislation in 1988, the DoD had not closed any major military bases for more than a decade, even though the Secretary of Defense had requested funding from the Congress to do so. During that period, the Congress effectively discouraged the Department of Defense from closing any bases by enacting laws establishing time-consuming procedures and requiring DoD to submit extensive reports on various aspects of closing bases. By waiving those requirements and permitting no Congressional adjustments in voting on the recommendations by the BRAC Commission, the 1988 law assured DoD that it would be permitted to close military bases recommended by the BRAC commission.

BRAC legislation also took an important step toward making sure that closing bases would not endanger national security. The law authorized the Secretary of Defense to require the services to give priority consideration to the military value of an installation in determining which ones to close. The Secretary instructed the services to make sure that current and future mission requirements and operational readiness objectives be met, and that contingency, mobilization, and total

force requirements be taken into account. This study did not review or analyze the military worth of the Department of Defense's selections and the BRAC Commission's recommendations.

Most of the bases being closed during the first three rounds of BRAC, however, were bases used by operational forces generally corresponding with reductions in the force structure called for by the Bottom Up Review, which contains the Clinton Administration's basic military strategy and force policy guidelines. Successive BRACs also closed an increasing number of administrative and support bases to meet BRAC's long-term objective of reducing the services' infrastructure. By requiring that the Department of Defense consider prioritizing national security requirements, however, the BRAC process incorporated a mechanism essential in addressing concern for the nation's military interests.

BRAC closures and realignments have generally proceeded smoothly. The Department of Defense is closing bases according to the schedule that the services established in compliance with the law requiring all actions to be completed within six years. In addition, successive BRAC commissions made relatively few changes in earlier decisions, thereby avoiding the potential confusion that could result if many changes were made. Communities and federal agencies have cooperated in planning the reuse of former military properties in accordance with laws and regulations governing priorities among claimants.

Carrying out BRAC, however, extends beyond closing and realigning bases and planning their reuse. It also seeks to minimize economic dislocation for affected communities and to assist workers and businesses in need of help. DoD and the Congress have taken important steps to help those affected by closing bases, including planning to transfer about 20 percent of former base property for use by communities for public benefit. When those plans are carried out, local authorities will use those properties to convert former military air bases to commercial use for parks and recreational areas, educational facilities, homeless assistance, and state prisons. Communities also plan to use a considerable amount of surplus property for economic development that can create new employment. The federal government is also giving communities and workers substantial financial assistance to help manage the transition. As of August 1996, for example, the federal government awarded about \$559 million in assistance grants to communities and workers affected by the first three rounds of BRAC. The Congress could consider requesting information and analysis of the effectiveness of those assistance grants as part of the Department of Defense's annual report on BRAC activities.

The Congress and executive agencies have also taken steps to accelerate the transfer and reuse of former military property to aid communities in local economic

recovery. The government has adopted regulations outlining a strict timetable for federal agencies to review surplus property that is available for transfer. To accelerate reuse, recent legislation authorized the lease of surplus property without completing environmental cleanup activities. Other legislation authorized the Department of Defense to identify parcels of uncontaminated property to accelerate their transfer. Communities may request transfer of property for economic recovery purposes at advantageous financial rates that can offer local governments substantial discounts below fair market value but can provide the federal government with long-term revenues.

Each of those measures can help facilitate and accelerate the transfer and reuse of surplus military property. DoD however, was unable to provide comprehensive statistics about how each of those measures has been carried out. The Congress could consider requesting the Department of Defense to report on those initiatives as a part of DoD's annual report on BRAC.

Although planning and assistance programs for communities and workers are functioning effectively, not much is known about the actual effects of base closings on communities. DoD's projections indicate that BRAC will have little effect on employment nationwide and could cause significant problems for only a few small communities that have been highly dependent on local military bases. Analysts have not yet undertaken a comprehensive examination of the actual economic effects of closing military bases. Since only half of the bases scheduled by BRAC have been closed and relatively little time has passed since the first two rounds of BRAC were completed, it is premature to assess the actual local impact of base closures. A recent study by RAND comparing initial estimates with actual data suggests that for a sampling of communities in California, the local effects of closing bases were not as negative as many projections predicted.

Based on limited audit information, the Congressional Budget Office believes that BRAC will save the federal government significant funds in the long term, but is unable to ascertain the full extent of those savings because DoD does not track or report to the Congress on actual savings that have accrued. DoD's projections of BRAC savings, although they vary significantly from initial estimates, suggest that major savings could be expected. Indeed, the Department of Defense has incorporated those savings estimates into budget plans for the Future Years Defense Program. Many people remain concerned, however, that failure to achieve projected savings that have been programmed into the budget could require program adjustments to meet real budgetary constraints. The Congress could consider asking DoD to establish an information system that would track the actual costs and savings of closing military bases. The system could apply to BRAC IV bases because DoD is just beginning to shut down those bases and virtually all of the work remains to be

done. Such information could provide valuable data if DoD considers closing additional bases beyond BRAC IV, or if the Congress considers authorizing an additional commission for base closure.

The Congress could consider authorizing an additional round of base closures if the Department of Defense believes that there is a surplus of military capacity after all rounds of BRAC have been carried out. That consideration, however, should follow an interval during which DoD and independent analysts examine the actual impact of the measures that have been taken thus far. Such a pause would allow the Department of Defense to collect data necessary to evaluate the effectiveness of initiatives and to determine the actual costs incurred and savings achieved. Additional time would also allow a more informed assessment of the local impacts of bases already closed by BRAC.